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Jannock Limited Annual Report 1977

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Corporate Directory

Jannock Limited

Jannock Limited, through wholly-owned subsidiaries, is engaged in sugar refining and marketing, brick manufacturing, the manufacture and distribution of steel tubing and the production of electrical components. Sales of $175.8 million and net earnings of $12.8 million rank it among the 100 largest corporations doing business in Canada. The shares of Jannock Limited are traded on the Toronto and Montreal Stock Exchanges.

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Directors

Lewis H.M. Ayre, St. John's, Newfoundland	Chairman of the Board, Ayre & Sons, Limited
J. Allan Boyle, Toronto, Ontario	Executive Vice President and Chief General Manager, The Toronto-Dominion Bank
E. Clayton Daniher, Toronto, Ontario	Chairman of the Board, Baker, Lovick Limited
L. Yves Fortier, Montreal, Quebec	Partner, Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard
*William M. Hatch, Toronto, Ontario	President, Hatchwill Investments Limited
J. Howard Hawke, Toronto, Ontario	President, Bache, Halsey, Stuart Canada Ltd.
*George C. Hitchman, Toronto, Ontario	Deputy Chairman, The Bank of Nova Scotia
*H. Gordon MacNeill, Toronto, Ontario	President and Chief Executive Officer, Jannock Limited
*George E. Mara, Toronto, Ontario	Chairman of the Board, Jannock Limited
William J.R. Paton, Thunder Bay, Ontario	Chairman of the Board, The Northern Engineering & Supply Co. Limited
Walter G. Ward, Toronto, Ontario	Chairman of the Board, Algoma Steel Corporation Limited
*Donald G. Willmot, Toronto, Ontario	Chairman of the Board, The Molson Companies Limited

*Member of the Executive Committee

Corporate Management

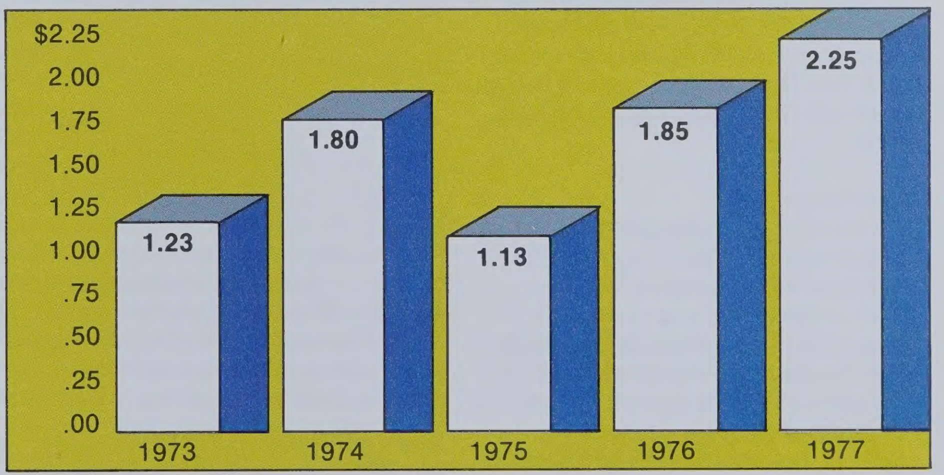
H. Gordon MacNeill	President and Chief Executive Officer
C.W. (Leo) Leonardi	Executive Vice President, Finance
R. Harold Weir	Vice President and Secretary
George L. Ploder	Controller
Peter S. Hayward	Treasurer

Jannock Limited

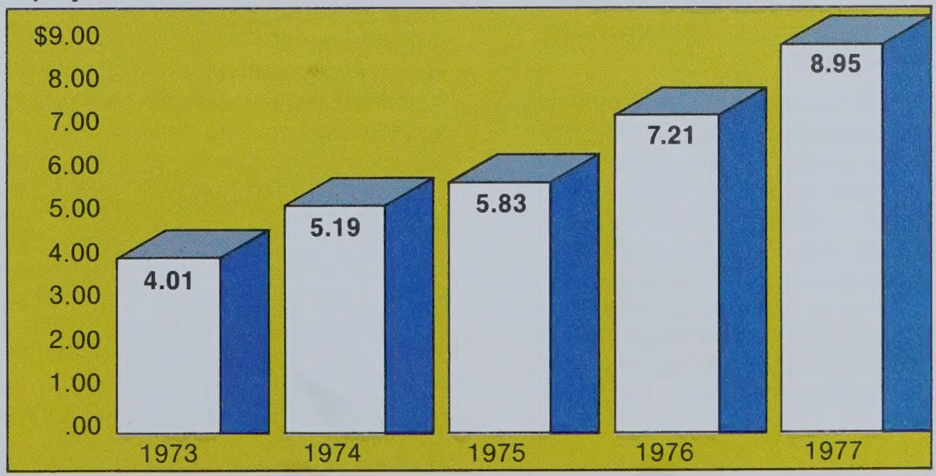
Financial Highlights

	1977 $ Million	1976 $ Million
Sales	**175.8**	174.6
Earnings from operations	**22.9**	22.2
Provision for income taxes	**9.1**	9.1
Earnings before extraordinary items	**12.8**	11.2
Earnings per share before extraordinary items	**2.25**	1.85
Earnings per share after extraordinary items	**2.25**	1.85
Equity per Class A and Class B Share	**8.95**	7.21
Working capital	**32.7**	41.1

Earnings Per Share Before Extraordinary Items



Equity Per Class A and Class B Share



Report to the Shareholders

George E. Mara

H. Gordon MacNeill

1977 Results

Jannock had an excellent year in 1977. Net earnings for the year were $12,819,000 or $2.25 per share, compared to earnings in 1976 of $11,211,000 or $1.85 per share. This represents a gain in net earnings per share of 21.6% over the year earlier. Since 1975 the Corporation's earnings per share have doubled from $1.13 to the present level of $2.25.

Sales for the year were $175,773,000 compared to $174,640,000 in 1976. Sales of Jannock's brick, tubing and electrical equipment operations were up 31% over last year. The volume of sugar sold was marginally ahead of 1976; the lower dollar value of sugar sales reflected lower prices for raw sugar.

Operations

The brick operations achieved record sales and earnings in 1977. Michigan Brick, acquired in July, 1976, contributed appreciably to these outstanding results for the year. Demand for our brick in Canada continued at high levels throughout the year as housing starts in this country were relatively strong. In the United States Michigan Brick could not satisfy the demand for its brick and was compelled to put its dealers on allocation.

Several major additions were made to the brick business during the year. Canada Brick, Streetsville, Ontario, added an automated packaging system which has significantly improved that plant's throughput. At St. Lawrence Brick, LaPrairie, Quebec, an additional kiln was brought into production on schedule and this has effectively doubled the capacity. Michigan Brick, Corunna, Michigan, built a new grinding facility and commenced construction of a fully automated plant. Construction is on schedule and the expected start-up of production this Spring will allow Michigan Brick to better meet the demand for brick in the Upper Midwest of the United States. The United States subsidiary has done considerable technical and marketing work on a product known as "Real Brick"; a clay brick one-half inch thick which is readily applied to walls, fireplaces, kitchen areas or recreation rooms. The market for "Real Brick" is substantial and Michigan Brick has recently commenced production on an automated line which will better allow it to meet the increasing demand for this product. In total, our brick operations have spent $6 million in the year to up-grade and expand capacity.

Atlantic Sugar's shipments of refined sugar, both domestic and export, were marginally ahead of 1976. The dollar sales of sugar were lower this year because of the reduced raw sugar prices.

Work continued on improving the efficiency of the Saint John, New Brunswick refinery with the installation of new raw sugar clarifiers. In order to better move the refined sugar to market, new bulk transportation equipment was added to service the Montreal refined sugar warehouse.

Since our last letter, the raw sugar importing and exporting countries have met in Geneva and concluded a new International Sugar Agreement. The pact has as its purpose the orderly marketing of raw sugar which will allow producer nations to earn a reasonable return on their raw sugar crops while still allowing consuming nations to purchase their requirements of raw sugar at relatively stable prices. The Agreement seeks to maintain a price range of from 11¢ to 21¢ per pound by means of a system of export quotas and the establishment of special stocks by exporting countries. Considering the stocks of raw sugar presently on hand and world production levels, it is anticipated the price of raw sugar will be at or below the lower limits set by the Agreement.

The past year was a difficult one for the steel tubing industry in Canada. There was considerable unused plant capacity and intense competition and price cutting. Sonco Steel Tube was, however, able to achieve sales and earnings gains over 1976. The results reflect the advantage of selling to a diversified market where Sonco can at least partially avoid the cyclical troughs which affect so much of the industry. The volume of work for a United States customer grows year by year and serves to further stabilize the business.

Significant changes have taken place in the tube distribution business. On March 31, 1977 Tubeco Industries was purchased. That corporation had achieved a strong market position in Western Canada and the acquisition of Tubeco Industries complemented our strength in the Eastern Canadian market. In August the amalgamation of the tubing distribution corporations was effected to form the continuing corporation Jannock Tube Limited. The amalgamation was carried out for organizational purposes; the operations will continue to be carried on under the designations of Lyman Tube and Tubeco as both organizations have built up strong customer loyalties over the years.

The operating results for the tube distribution business were gratifying and the year was one of recovery for the Lyman Tube operation. Tubeco Industries contributed to the earnings of the business from the time of its acquisition.

Allanson Manufacturing operated in an electrical equipment market that lacked buoyancy but was still able to meet its operating objective for the year. Allanson is presently testing the feasibility of new types of transformer equipment for energy saving systems which, if successful, will be a worthwhile addition to the product line.

Capital Reorganization
On June 16, 1977 shareholders approved the reorganization of the capital structure of the Corporation and the change of the Corporation's name to "Jannock Limited". Under the reorganization the number of classes of shares was reduced from five to three. The new classes of shares and the 1977 Warrant were called for trading on the Toronto and Montreal Stock Exchanges July 6, 1977. Jannock's previous capital structure was unduly complex and the change has made the Corporation easier for investors to understand.

On July 12, 1977 the Corporation made a tender offer of $7.00 per share for its Class A and Class B shares. As a result of this offer, the Corporation acquired and cancelled 460,805 equity shares. The earnings per share calculation has been made on the basis of the average outstanding equity shares, reflecting the effect of the tender offer. This adjustment has resulted in an increase of approximately 9¢ to reported earnings per share for 1977.

Board Appointments
On February 23, 1977 Mr. Walter G. Ward, Chairman of the Board of Algoma Steel Corporation Limited was appointed a Director of the Corporation, and on June 16, 1977 Mr. J. Allan Boyle, Executive Vice President and Chief General Manager of The Toronto-Dominion Bank, was elected a Director. Both men have wide experience in Canadian industry and business and have been and will be of great value to the Corporation.

Dividends
Over the past fifteen months dividends have been effectively increased on two occasions, on January 1, 1977 and January 1, 1978, as follows:

	Prior To 1977	Jan. 1, 1977	Jan. 1, 1978
Class A	50.00¢	54.00¢	57.24¢
Class B	42.50¢	45.90¢	48.65¢

Both increases were the maximum permitted by the regulations under the Anti-Inflation Act. At the Annual and General Meeting of Shareholders of the Corporation last June the dividend policy was described as one that will reflect the superior performance of the Corporation and that, as a minimum standard, keeps up with inflation. The Board intends to review the dividend policy when anti-inflation controls are lifted.

Future Growth
In last year's report mention was made of the business strategy developed to ensure the growth of the Corporation over the next ten years. This plan is being followed and will show positive results in the years to come. The Corporation's efforts have effectively been consolidated into three areas: the production and marketing of clay brick where the operation is preeminent in Canada, the refining and marketing of sugar where Atlantic Sugar is the second largest refining company in Canada and tube manufacturing and distribution where our businesses hold a strong position in major markets across Canada. As reflected in earlier comments, improvements and added capacity have been and will be introduced to these three operations so that our businesses are maintained and we take advantage of opportunities in these established areas.

It is also the intention to add to our present businesses by acquisition of operations which complement them and where the expertise Jannock has developed can be used to advantage. The earnings of the past years, the monies received from the sale of businesses which did not meet our standards and the substantial borrowing power the Corporation has because of its improved financial strength will provide the resources for meaningful acquisitions. Great care is exercised in evaluating potential acquisitions, so as to ensure that they meet the criteria established and can be managed to advantage. It is expected that significant acquisitions will be made in 1978.

The marked improvement in earnings in the last two years and the significant strengthening in the Corporation's balance sheet has been recognized in the market place. The price of Jannock equity shares has risen appreciably over the last year and this performance is all the more impressive when you consider the general weakening of share prices of Canadian industrial corporations.

It is the abilities, dedication and efforts of all the employees which are reflected in the superior performance of the Corporation and which have made possible the results for the year past.

George E. Mara
Chairman of the Board

H. Gordon MacNeill
President and Chief Executive Officer

March 14, 1978

Financial Review

C. W. Leonardi

Acquisition and Divestiture

There was one acquisition in 1977, Tubeco Industries of Vancouver, British Columbia. Subsequent to the acquisition, Tubeco and Lyman were amalgamated to form the continuing corporation Jannock Tube Limited. The management of this business is now under one control. In view of the fact that Tubeco's major markets are in Western Canada, Jannock today has a stronger national marketing base and as a result has received substantial benefits from the integration of these two businesses.

In July, 1976 Michigan Brick operations were acquired and consequently there is a lack of direct comparison between the results of 1977 and 1976. Michigan Brick has contributed to increased earnings in the current year. In addition, the sale of the Groundfish operation in March, 1976 causes a minor effect on 1976 comparative figures.

Earnings

Earnings for the year before extraordinary items were $12,819,366 or $2.25 per share compared to $11,210,702 in 1976 or $1.85 per share.

During 1977, 460,805 shares were acquired under a tender offer in August and 56,650 options were exercised so that the number of shares outstanding on which the earnings per share has been calculated has been reduced from 5,053,000 to 4,876,000, being the weighted average number of Class A and B shares outstanding during the year. In 1978 the earnings per share will be based on 4,662,775 shares, which is the number outstanding at December 31, 1977 (unless further share adjustments are made during the year).

If 1976 and 1977 were based on the same weighted average number of shares of 4,876,000, earnings per share would be $2.25 for 1977 and $1.91 for 1976.

While the consolidated dollar sales figures for 1977 and 1976 were almost the same, there was a further decline in the dollar sugar sales in 1977 due to the lower sugar prices on the international markets, although the volume of sugar sold increased marginally. This dollar decrease was offset by an increase in all other operations including a substantial increase in the Tube operations due to the acquisition mentioned above.

Interest Costs

The further reduction in interest on long term debt was due to a further reduction in the prime rate which dropped to 8¼% early in 1977. In addition, in July 1977 there was a repayment of $10 million under the term bank loan which was repaid ahead of schedule.

Income Taxes

As reported in the 1976 Annual Report, the effective tax rate, after allowing for a prior period adjustment in that year, would have been 43.6%. The rate for 1977 overall was 41.5% and the major reason for the decrease this year was the 3% inventory tax credit introduced in the last budget.

It should be noted that investment tax credits on the acquisition of fixed assets both in the United States and Canada amounted to some $300,000. The Corporation has decided, as is outlined in the Accounting Policy section, to treat these benefits on a deferred basis rather than on a flow-through basis. It has been estimated that the assets to which these income tax credits apply have an approximate life of 10 years and management has decided that these credits should be written-off over that period of time.

Balance Sheet

The financial strength of the Corporation continued to improve during 1977. As mentioned above, the Corporation repaid $10 million in term bank loans which reduced the amount of cash and short term investments as well as the long term debt and current instalment of long term debt. While this reduced working capital from $41 million to $33 million, it also substantially improved the equity-debt ratio from 2.4 : 1 in 1976 to 4.0 : 1 in 1977. This improvement in the financial position will provide a good basis for future financing of acquisitions.

A significant change on the Balance Sheet is the increase in inventories due to the acquisition of the Tubeco operations plus the purchase of a larger than normal quantity of raw sugar prior to December 31 in view of the availability of cargoes prior to the introduction of the International Sugar Agreement.

The reduction in investments was due to the redemption of the preferred shares received on the sale of the "Fish" business and with these funds the long term debt, in the form of a Promissory Note to the Newfoundland Industrial Development Corporation, was repaid.

As mentioned in the 1976 report, the expansion of Michigan Brick is financed by a term loan and in Note 7 to the financial statements you will see an increase of $3.5 million (U.S.) which is a 7 year note repayable in equal instalments commencing December 1, 1978.

Capital Expenditures and Depreciation

The increase in the depreciation charged is based on the capital expenditures completed in 1977 and was only marginally affected by the acquisition of Tubeco and the full year of Michigan Brick operations.

The actual capital expenditures made in 1977 were approximately $8.8 million of which approximately $6 million was in the Brick group. These expenditures covered the planned addition of a new plant at Michigan Brick with a capacity to produce 35 million bricks and the doubling of the kiln capacity at St. Lawrence Brick in LaPrairie as well as other automation costs. The St. Lawrence kiln was "fired up" in August of 1977 and immediately commenced production so that the full benefit will be received in 1978. At Michigan Brick the kiln will be on stream in the spring of 1978.

The Corporation has capital expenditures currently planned to increase the capacity at its Sonco operation and to complete the automation of its Ontario brick plants. These, together with other minor expenditures, are just under $3 million.

Review of Quarterly Sales and Earnings

	Net Sales $ Millions		Net Earnings $ Millions		Earnings Per Share	
	1977	1976	1977	1976	1977*	1976
First Quarter	37.3	41.2	2.2	1.9	$0.35	$0.28
Second Quarter	48.3	48.8	3.4	3.0	0.61	0.50
Third Quarter	46.8	43.9	3.9	3.1	0.73	0.52
Fourth Quarter	43.4	40.7	3.3	3.2	0.56	0.55
	175.8	**174.6**	**12.8**	**11.2**	**$2.25**	**$1.85**

*The quarterly numbers have been revised from those initially reported to reflect the effect of the tender offer in August, 1977.

Anti-Inflation Board

The Anti-Inflation Board is being phased out in 1978 and the Corporation will be subject to Anti-Inflation Board guidelines as to prices and profits throughout 1978. The Corporation has complied fully with the Anti-Inflation Act. In the case of compensation, most of the union agreements will be negotiated after April and as a result will not be covered by the A.I.B. rules. The government has announced that a monitoring agency will be set up but it is not possible to advise shareholders at this time as to how this will affect the Corporation in 1978 and beyond.

Dividends

Commencing with January 1, 1978 the dividend rates on Class A and Class B shares were raised from 54¢ to 57.24¢ and from 45.90¢ to 48.65¢ respectively in accordance with the A.I.B. regulations.

Capital Reorganization

There was a major capital reorganization completed in June, 1977 under which the previous three classes of preferred shares were consolidated into a single class and the Class D shares and Special shares were redesignated as Class A and B shares respectively. As part of the consolidation of the classes of preferred shares the conversion privilege on one class was cancelled and warrants were issued. These changes are all described in detail in the notes to the financial statements. In addition, the class of preferred shares that was established allowed for a senior class to be issued in future which gives the Corporation the necessary flexibility in its equity to take care of future needs.

Shareholders are advised that by the end of 1978 the Corporation will no longer be permitted to pay tax-deferred dividends unless the government changes the existing regulations. The Corporation is reviewing in detail how it could continue to provide shareholders with the benefits that were previously established under the tax paid and capital surplus provisions of the Income Tax Act. In addition, representation has been made to Ottawa for a more equitable position in view of the fact that the Corporation paid the 15% tax on a substantial amount of surplus when the amalgamation of Atlantic Sugar Refineries Co. Limited and The Glengair Group Limited took place in 1973. There has been no satisfactory reply yet to this request. The Corporation is investigating methods of dealing with its tax paid and capital surplus prior to the end of 1978 and shareholders will be kept fully informed.

Summary

The financial strength of the Corporation further improved in 1977 in both the Balance Sheet and earnings results. Maintaining a strong Balance Sheet in times of economic uncertainty such as we are now experiencing is of vital importance. Shareholders should take solace from the position of their Corporation's Balance Sheet compared to the many corporations that are suffering today from excessive leveraging which has caused a reduction or elimination of dividends as well as a question of financial stability.

The Corporation thus enters 1978 with an even stronger base than the previous year and its plans call for the continuation of its growth.

C. W. Leonardi
Executive Vice President, Finance

Jannock Limited

Consolidated Statement of Earnings

for the Year Ended December 31, 1977

	1977	1976
Sales	**$175,773,097**	$174,640,467
Cost of sales, selling, distribution and general expenses	**149,788,803**	149,849,980
Depreciation	**3,065,109**	2,590,370
	152,853,912	152,440,350
Earnings from Operations	**22,919,185**	22,200,117
Interest on long-term debt	**2,224,001**	2,645,923
Interest on short-term debt	**915,123**	1,102,275
	3,139,124	3,748,198
Investment and other income	**2,145,251**	1,907,484
	993,873	1,840,714
Earnings Before Income Taxes and Extraordinary Items	**21,925,312**	20,359,403
Provision for Income Taxes		
Current	**8,239,121**	7,695,031
Deferred	**866,825**	1,453,670
	9,105,946	9,148,701
Earnings Before Extraordinary Items	**12,819,366**	11,210,702
Extraordinary Income	**—**	38,513
Net Earnings for the Year	**$ 12,819,366**	$ 11,249,215
Earnings before extraordinary items applicable to Class A and Class B shares	**$ 10,993,187**	$ 9,327,364
Weighted average number of Class A and Class B shares outstanding during the year	**4,876,453**	5,053,200
Earnings per share (note 8)		
Before extraordinary items	**$2.25**	$1.85
After extraordinary items	**$2.25**	$1.85

See accompanying statement of accounting policies and notes to financial statements.

Jannock Limited

Consolidated Statement of Retained Earnings

for the Year Ended December 31, 1977

	1977	1976
Balance—Beginning of Year	**$15,044,051**	$8,023,481
Net earnings for the year	**12,819,366**	11,249,215
	27,863,417	19,272,696
Dividends—		
8% Second Preference shares	**1,826,179**	1,883,338
Class A and Class B shares	**2,448,419**	2,355,246
	4,274,598	4,238,584
Cost of capital reorganization	**145,355**	—
Cost over stated book value of shares purchased for cancellation	**1,358,936**	(9,939)
	5,778,889	4,228,645
Balance—End of Year	**$22,084,528**	$15,044,051

See accompanying statement of accounting policies and notes to financial statements.

Jannock Limited

Consolidated Balance Sheet

as at December 31, 1977

Assets	1977	1976
Current Assets		
Cash and short-term investments	**$ 14,525,563**	$ 25,478,626
Accounts receivable	**23,346,722**	19,370,182
Inventories (note 2)	**25,156,396**	16,611,989
Prepaid expenses and other assets	**2,982,485**	4,484,508
	66,011,166	65,945,305
Investments (note 3)	**2,004,326**	4,980,332
Fixed Assets—at cost (note 4)	**69,863,495**	58,718,857
Less: Accumulated depreciation and amortization	**26,973,259**	23,540,613
	42,890,236	35,178,244
Intangibles (note 5)	**12,409,404**	12,430,659
	$123,315,132	$118,534,540

See accompanying statement of accounting policies and notes to financial statements.

Signed on behalf of the Board:

George E. Mara, *Director*

H. Gordon MacNeill, *Director*

Liabilities

	1977	1976
Current Liabilities		
Bank advances (note 6)	$ 12,742,544	$ 4,958,248
Accounts payable and accrued liabilities	15,048,944	11,754,249
Income taxes payable	3,742,379	4,345,417
Current instalments of long-term debt (note 7)	642,161	2,693,579
Dividends payable	1,119,554	1,115,818
	33,295,582	24,867,311
Long-Term Debt (note 7)	16,482,918	25,642,927
Deferred Income Taxes	6,799,262	6,762,640
	56,577,762	57,272,878

Shareholders' Equity

	1977	1976
Share Capital (note 8)		
Issued and fully paid—		
1,666,208 8% Second Preference shares	24,993,120	24,726,224
4,662,775 Class A and Class B shares	19,659,722	21,491,387
Retained Earnings	22,084,528	15,044,051
	66,737,370	61,261,662
	$123,315,132	$118,534,540

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Jannock Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants

Toronto, Ontario
February 6, 1978

Jannock Limited

Consolidated Statement of Changes in Financial Position

for the Year Ended December 31, 1977

	1977	1976
Source of Working Capital		
Earnings for the year before extraordinary items	**$12,819,366**	$11,210,702
Items not affecting working capital—		
Depreciation	**3,065,109**	2,590,370
Deferred income taxes	**866,825**	1,453,670
Amortization of intangibles	**221,255**	50,170
Loss on sale of fixed assets	**37,991**	230,905
Provided from operations	**17,010,546**	15,535,817
Disposal of fixed assets	**136,825**	2,908,423
Reduction of investments and intangibles	**3,782,396**	232,534
Issue of share capital	**396,550**	412,500
Increase in long-term debt	**3,998,000**	11,229,144
	25,324,317	30,318,418
Use of Working Capital		
Acquisition of subsidiary	**1,975,033**	—
Increase in investments	**1,333,998**	4,054,031
Additions to fixed assets	**8,845,917**	4,888,127
Reduction of long-term debt	**13,690,009**	8,301,838
Cost of reduction of share capital	**3,320,255**	311,803
Dividends	**4,274,598**	4,238,584
Current income taxes applicable to extraordinary items	**—**	194,246
Cost of capital reorganization	**188,903**	—
Other	**58,014**	9,505
	33,686,727	21,998,134
Increase (Decrease) in Working Capital	**(8,362,410)**	8,320,284
Working Capital—Beginning of Year	**41,077,994**	32,757,710
Working Capital—End of Year	**$32,715,584**	$41,077,994

See accompanying statement of accounting policies and notes to financial statements.

Statement of Accounting Policies

for the Year Ended December 31, 1977

Principles of Consolidation
The consolidated financial statements include the accounts of all subsidiaries. Intercompany transactions and the year-end account balances have been eliminated on consolidation.

Inventories
Inventories, other than commodity inventories, are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Commodity inventories are stated at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis with the exception of refined sugar, which is determined on the average cost for the year.

Accounts Receivable
Accounts receivable are shown net of allowances for doubtful accounts.

Fixed Assets
Fixed Assets are carried at cost.

Depreciation of fixed assets, which is based on management's estimate of the useful life, is calculated on a straight-line basis.

Profits and losses on the sale of fixed assets are charged to operations unless of an extraordinary nature.

The difference in taxes arising from the depreciation recorded in the companies' statements and the amount claimed as capital cost allowance for tax purposes is treated as deferred income taxes.

Deferred Income Taxes and Investment Tax Credits
Deferred income taxes are included in the statements for all differences between the income and expenses reflected in the statements and the amounts included in the computation of income for tax purposes for the current year, provided that such differences will be included in the computation of income for tax purposes in future years.

Deferred income taxes are set up at the tax rate of the year and are drawn down at the average rate of accumulation.

Investment tax credits are deferred and amortized over the useful life of the related assets.

Intangibles
The cost of investment in subsidiaries over the assigned value of net assets acquired is recorded as an intangible asset. Goodwill arising prior to March 31, 1974 is not being amortized as management believes it has a continuing value. Goodwill relating to acquisitions after March 31, 1974 is being amortized in accordance with generally accepted accounting principles.

Deferred financing and other similar costs are amortized over the period of the obligation in proportion to the amount of debt outstanding.

Translation of Foreign Currencies
Translation of accounts in foreign currencies has been made as follows:

(a) Current assets and current liabilities—at the rates of exchange at the balance sheet date;

(b) Other balance sheet accounts and depreciation expense—at the rate of exchange prevailing at the time of acquisition;

(c) All items, excluding depreciation, on the statement of earnings—at the average rate of exchange for the year calculated on a monthly basis.

Jannock Limited

Notes to Consolidated Financial Statements

for the Year Ended December 31, 1977

1. Significant Changes in Operations

On July 5, 1977 the name of the Corporation was changed from Jannock Corporation Limited to Jannock Limited.

The Corporation acquired all the outstanding and issued shares of B.C. Tubesupply Limited, Tubeco Holdings Limited and Tubeco Industries Limited for a total cash consideration of $2,948,033 on March 31, 1977. These financial statements reflect the results of this purchase from the date of acquisition. The cost of this acquisition was represented by:

Fixed assets	**$2,106,000**
Goodwill	**401,033**
Long term debt	**(532,000)**
	1,975,033
Working capital	**973,000**
	$2,948,033

The Corporation acquired the net operating assets of the Michigan Brick Division of Hancor, Inc., on July 15, 1976. The 1976 comparative figures include the results of operations from that date.

The Corporation sold the Groundfish operation as of March 27, 1976 and the 1976 comparative figures reflect the operating results to February 28, 1976. The final profit on the sale was included as an extraordinary item.

2. Inventories

	1977	1976
Raw materials	**$ 8,657,241**	$ 4,410,028
Work in process	**997,177**	814,850
Finished goods	**13,987,415**	10,322,719
Supplies	**1,514,563**	1,064,392
	$25,156,396	$16,611,989

3. Investments

Investments, which include a long-term loan receivable from an officer of $407,125 (1976—$407,125), are valued at cost less provisions for decline in value.

4. Fixed Assets

	1977			1976	
	Cost	**Net**	Depre-ciation rates %	Cost	Net
Land	**$ 3,870,477**	**$ 3,708,724**	—	$ 2,695,344	$ 2,559,349
Buildings	**17,234,912**	**10,992,733**	2½-5	14,930,111	9,370,464
Plant equipment	**40,395,854**	**22,316,267**	3-20	37,020,119	21,156,928
Mobile equipment	**1,910,601**	**1,160,088**	20-33	1,158,122	674,757
Furniture and fixtures	**2,570,491**	**893,478**	10-20	2,170,187	739,810
Leasehold improvements	**113,586**	**51,372**	5	128,362	60,324
Construction in progress	**3,767,574**	**3,767,574**	—	616,612	616,612
	$69,863,495	**$42,890,236**		$58,718,857	$35,178,244

Insured value on the basis of replacement cost as at December 31, 1977 was $110,748,000.

5. Intangibles

	1977	1976
Deferred financing costs	**$ 72,507**	$ 93,762
Cost of investment in subsidiaries over assigned value of net assets acquired—		
Canada Brick	**1,969,407**	1,969,407
Sonco	**7,002,579**	7,002,579
Allanson	**2,973,238**	2,973,238
Other	**391,673**	391,673
	$12,409,404	$12,430,659

6. Bank Indebtedness

Bank advances are secured by inventories and a general assignment of book debts.

All bank advances are owing to a bank which is a shareholder of the Corporation with the exception of $147,000.

7. Long-Term Debt

	1977	1976
Jannock Limited		
Sinking fund debentures		
6¾% Series 'A' maturing 1985	**$ 1,176,730**	$ 1,358,270
Unsecured		
Other	**—**	234,943
Jannock Industries Limited		
Sinking fund bonds		
6¾% Series 'A' maturing 1984	**2,147,000**	2,457,000
Secured by guarantee of Jannock Limited		
Atlantic Sugar Limited		
10¼% first mortgage maturing 1982	**407,451**	—
Secured by office building		
Promissory note	**—**	2,876,006
Term bank loan–prime bank rate plus 1½% maturing 1981	**—**	11,250,000
Canada Brick Company Limited		
Mortgage debenture–commercial paper rate plus 1¾% maturing 1985	**8,300,000**	8,300,000
Secured on total fixed assets		

Michigan Brick Inc.		
Term loan of $3.5 million (U.S.) to be drawn by June 1, 1978 and repaid in annual instalments of $500,000 commencing December 1, 1978. Interest rate will be 125% of the New York prime bank rate. Secured by first mortgage on land and buildings	**3,585,000**	—
St. Lawrence Brick Co. Limited		
First mortgage sinking fund bonds 9⅜% Series 'A' maturing 1990 Secured on total fixed assets	**1,200,000**	1,252,000
Subordinated sinking fund debentures 9¼% maturing 1990	**—**	277,500
Sonco Steel Tube Limited		
First mortgage 7¾% maturing 1986 Secured on land and buildings	**308,898**	330,787
	17,125,079	28,336,506
Less: Sinking fund and principal payments due within one year	**642,161**	2,693,579
	$16,482,918	$25,642,927

Payments of principal and interest required in the next five years to meet long-term debt instalments and sinking fund provisions are:

	Principal	**Interest**
1978	**$ 642,161**	**$1,485,212**
1979	**1,383,654**	**1,407,589**
1980	**2,094,526**	**1,290,477**
1981	**2,104,647**	**1,112,701**
1982	**$2,114,040**	**$ 939,148**

The term bank loan of $3,585,000 is owed to a bank which is a shareholder of the Corporation.

8. Share Capital

(a) Capital Reorganization
On July 5, 1977 the capital reorganization of the Corporation was completed which resulted in the following changes in the capital structure as approved at shareholder meetings June 16, 1977:

(i) consolidating the former 6% Preference shares, $1.20 Class A shares and 6% Class B shares into 8% Second Preference shares as follows:

69,900 6% Preference shares	419,400
410,600 $1.20 Class A shares	451,660
795,148 6% Class B shares	795,148
Total number of 8% Second Preference shares issued	1,666,208

(ii) redesignation of the Class D and Special shares as Class A and Class B shares.

As a result of the foregoing, an amount of $297,626 was transferred to the stated capital of the 8% Second Preference shares from the new Class A and Class B shares.

(iii) issue of 795,148 1977 warrants to the former 6% Class B shareholders to purchase one new Class A share for each 1977 warrant.

(iv) amending the terms of the existing B warrants enabling the holders to purchase the new classes of shares resulting from the capital reorganization.

(b) Authorized
1,500,000 First Preference shares with a par value of $20 each, issuable in series.

1,746,060 8% Cumulative Redeemable Second Preference shares with a par value of $15 each. These shares may be purchased for cancellation from a $300,000 annual purchase fund and carry no voting rights until six quarterly dividends are in arrears.

8,000,000 Class A and Class B shares, without par value; voting; inter-convertible on a share for share basis.

(i) a cash dividend may be paid on the Class B shares out of tax-paid undistributed surplus on hand or 1971 capital surplus, thereby resulting in a non-taxable dividend to holders;

(ii) when dividends are declared on Class B shares, there shall be declared on Class A shares a dividend equal to the sum of the cash dividend per share on the Class B shares plus an amount equal to the tax paid per share to create tax-paid undistributed surplus.

1,000 Common shares without par value.

(c) Changes during year
There were 56,650 Class A and Class B shares issued during the year for a cash consideration of $396,550 as the result of the exercise of certain options.

Pursuant to a tender offer dated July 12, 1977, 460,805 Class A and Class B shares were purchased for $7.00 each for cancellation by payment of $3,225,635 cash resulting in a reduction of the stated value of the Class A and Class B share capital of $1,930,589.

(d) Reservations of Capital Stock—

(i) Warrants
The following share purchase warrants are outstanding:

Name	**Number**	**Number and Class of shares**	**Exercise Price**	**Expiry Date**
1968 Warrants	239,070	1 Class B	$14.00 per share	March 1, 1978
B Warrants	52,718*	1 Class B, 1½ 8% Second Preference and 1½ 1977 Warrants	56.00 per unit	March 1, 1978
1977 Warrants	795,148	1 Class A	12.00 per share 15.00 per share	July 31, 1982 July 31, 1987

*These warrants are exercisable only in units.

(ii) Options
127,750 Class B shares have been reserved under stock option plans for officers and employees. Outstanding options are as follows:

Number of Shares	**Option date**	**Expiry date**	**Exercise price**
30,000	June 18, 1969	June 18, 1979	$7.00
7,000	April 19, 1972	April 19, 1982	7.00
37,000			

125,000 Class B shares are reserved under a share purchase plan for officers and employees. The purchase price is market value at the date of issue of shares under the plan.

(iii) Dilution
The exercise of warrants and options would result in dilution of earnings per share as follows:

Basic earnings per share	$2.25
Exercise of options	(.01)
Exercise of 1977 warrants	(.24)
Fully diluted earnings per share	$2.00

9. Lease commitments
Lease commitments are as follows:

1978	$ 734,319
1979	539,067
1980	386,079
1981	341,505
1982	275,947
1983-1987	801,348
1988-1992	429,197
1993-1997	70,756
	$3,578,218

10. Legal Matters

(a) Sugar Combines Case
On December 19, 1975, a Judgement was given by Mr. Justice Mackay of the Superior Court, Criminal Division, District of Montreal, acquitting Atlantic Sugar Refineries Co. Limited, the predecessor corporation of Jannock Limited, and two other major sugar refiners in eastern Canada of the charge of committing indictable offenses contrary to Section 32(1)(b) and (c) of the Combines Investigation Act. The Attorney General of Canada appealed the Judgement of acquittal to the Quebec Court of Appeal and the appeal was heard in October 1977. The Judgement of the Appeal Court is expected in 1978.

(b) Sale of Pulp Assets in 1974
(i) A subsidiary company commenced legal proceedings against the purchaser, Acadia Forest Products Limited, to recover all monies due under a dispute on certain transactions arising from the sale. Judgement in this case was adverse to our subsidiary company and the Judgement has been appealed to the Court of Appeal, Province of New Brunswick. It is expected that the appeal will be heard early in 1978.

(ii) A former sales agent commenced an action against a subsidiary company alleging damages for breach of contract in the amount of $1,187,580 special damages. Judgement was given against the subsidiary company for $493,195. The Judgement has been appealed and it is expected the appeal will be heard early in 1978.

(c) Brick Antitrust Case
A building products dealer in the United States has commenced an action against Michigan Brick, Inc., and two of its dealers alleging violation of the antitrust laws of the United States. Michigan Brick, Inc. has reviewed the matter and is defending this action vigorously.

(d) Sonco Combines Case
In June, 1976 proceedings were instituted charging Sonco Steel Tube Limited and other corporations with the commission of an indictable offense contrary to Section 32(1)(c) of the Combines Investigation Act. A Preliminary Hearing was held in 1977 and our subsidiary corporation and other corporations were committed for trial. It is expected the trial will be held in 1978.

11. Statutory Requirements
Directors' and Senior Officers' Remuneration

	1977	1976
Number of directors	12	12
Remuneration of directors as directors	$ 41,500	$ 52,250
Number of senior officers*	6	6
Remuneration of senior officers as officers	$454,500	$518,933
Number of senior officers who are also directors	2	2

*Senior officers include the five highest paid employees of the Corporation as required by The Business Corporations Act (Ontario).

12. Anti-Inflation Legislation
The Corporation is subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations.

13. Comparative Figures
Certain 1976 figures have been reclassified for comparative purposes.

14. Sales
The sales by class of business were as follows:

	1977	1976
Sugar	$ 87,159,080	$107,035,146
Steel	49,995,673	33,760,148
Brick	29,385,140	23,007,408
Other	9,233,204	10,837,765
	$175,773,097	$174,640,467

Jannock Limited

Historical Summary

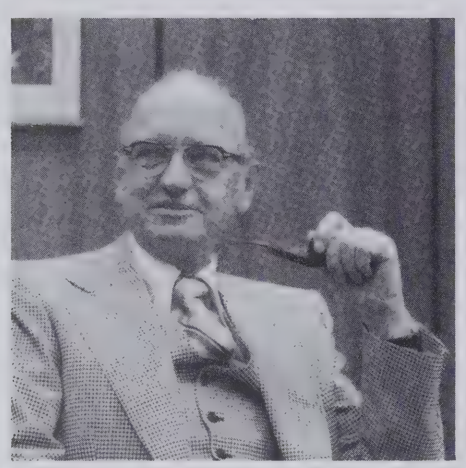
Income Information ($'000)	1977	1976	1975	1974	1973
Sales	**175,773**	174,640	226,943	254,710	170,905
Earnings from Operations	**22,919**	22,200	17,125	24,361	20,234
Net Earnings before Extraordinary Items	**12,819**	11,211	7,569	10,921	8,281
Net Earnings after Extraordinary Items	**12,819**	11,249	7,342	9,732	6,109
Depreciation	**3,065**	2,590	3,250	3,360	3,591
Earnings per Share—($)					
Before Extraordinary	**2.25**	1.85	1.13	1.80	1.23
After Extraordinary	**2.25**	1.85	1.09	1.56	.80
Cash Flow from Operations	**17,011**	15,536	12,246	14,862	12,571
Interest on Long-Term Debt	**2,224**	2,646	2,914	3,218	2,755

Balance Sheet Information ($'000)	1977	1976	1975	1974	1973
Current Assets	**66,011**	65,945	70,610	97,941	45,607
Current Liabilities	**33,295**	24,867	37,853	63,587	34,685
Working Capital	**32,716**	41,078	32,757	34,354	10,922
Fixed Assets—Net	**42,890**	35,178	36,020	40,654	58,270
Other Investments	**2,004**	4,980	2,426	4,158	6,114
Intangibles	**12,409**	12,431	12,481	9,405	11,334
Total Assets	**123,315**	118,535	121,537	152,158	121,325
Long-Term Debt	**16,483**	25,643	22,716	26,542	27,447
Deferred Income Taxes	**6,799**	6,763	6,818	10,865	13,201
Preferred Shares—Book Value	**24,993**	24,726	25,048	25,277	25,313
Shareholders' Equity—Class A and Class B	**41,744**	36,535	29,102	25,887	20,037

Shareholder Information	1977	1976	1975	1974	1973
Dividend Paid ($)					
Class A	**.54**	.50	.50	.4250	.40(1)
Class B	**.4590**	.4250	.4250	.36125	.34(1)
Equity per Share ($)	**8.95**	7.21	5.83	5.19	4.01
Return on Shareholders' Equity (%)	**26.3**	25.5	19.5	34.8	30.7
Number of Shares Outstanding—Class A and Class B	**4,662,775**	5,066,930	4,991,930	4,991,930	4,991,930
Number of Shareholders—Class A and Class B	**5,635**	5,764	6,073	6,607	6,595
Number of Preference Shares Outstanding	**1,666,208**	(2)	(2)	(2)	(2)
Number of Preference Shareholders	**5,118**	(2)	(2)	(2)	(2)
Market Range ($)					
Equity Shares—High	**12.75**	7.50	6.75	8.75	7.50
—Low	**6.75**	5.00	4.70	4.25	5.75
Preference Shares—High	**14.63**	(2)	(2)	(2)	(2)
—Low	**13.00**				
1977 Warrants—High	**3.50**	(2)	(2)	(2)	(2)
—Low	**1.50**				

Notes: (1) annualized rate
(2) not applicable due to effect of 1977 Share Capital Reorganization

Brick Operations



E. Yngve Carlson,
President—Brick Operations

Five Year Review	Sales ($ million)	Earnings from Operations ($ million)
1977	29.4	8.6
1976	23.0	7.2
1975	15.0	5.0
1974	9.0	2.6
1973	6.9	2.0

Business Description
The Brick operation is the largest manufacturer and marketer of clay brick in Canada. The combined capacity of the three brick-making facilities in Ontario and Quebec is 220 million bricks a year. The market area served extends from Quebec City in the East to the Lakehead in the West. The capacity of the Michigan Brick plant is being increased to 80 million bricks a year and the Company markets its production in the Upper Midwest of the United States.

The four plants produce an extensive range, in both color and texture, of clay brick. Canada Brick also produces calcite brick.

Operations Review
The brick operations completed the best year in its history. Demand for brick in the central Canadian residential market exceeded expectations and the Midwest American market continued the strong upward trend which had been anticipated. All plants operated at near capacity and all contributed to the improved sales and profit position for the year. This was the first full year of operation for Michigan Brick.

Cost increases continue to be of concern. The cost of energy continues to rise and it was possible to offset only a small portion of those increases by improved fuel efficiencies. Other increases in costs were partially offset by increased production levels.

A program of up-grading and expanding our production facilities was carried on over the year 1977. The construction of a new plant at Michigan Brick was commenced and is proceeding on schedule, with the initial trial use of equipment scheduled to commence in the first quarter of 1978. The additional capacity provided will be most helpful in a market where we found it necessary to place our dealers on allocation and where the inventory level is well below that required to properly serve the market.

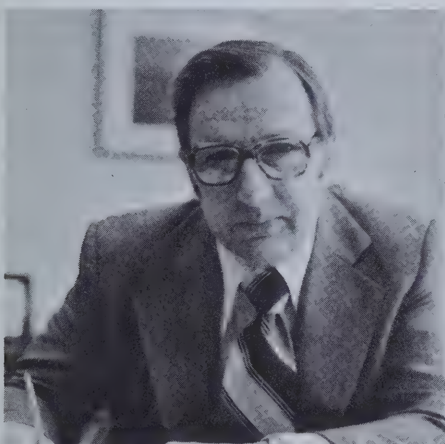
Late in 1977 a new kiln was added to the capacity of St. Lawrence Brick. The kiln did not contribute appreciably to the year's results but it did allow additional output so as to ameliorate the inventory shortage at LaPrairie. This year the additional capacity will enable us to serve a larger geographic market with a more diverse product line.

Additional storage area for unfired brick was added to the Burlington plant late in 1977. This space will provide greater flexibility in meeting the delivery requirements of our customers, a simplified product flow and a modest increase in throughput capability.

A highly automated production line for "Real Brick" was installed at the Michigan Brick location for start-up early in 1978. "Real Brick" is just what the name implies; it is very thin clay brick which has attractive applications in wall panels and interior use. Strong demand for this product necessitated our designing and building the more efficient line; we have great expectations for this product in the years to come.

Outlook for 1978
Demand for brick in central Canada is expected to weaken because of a somewhat over-built and over-priced residential market. Non-residential building construction is expected to remain at the present low level. The Midwest market in the United States appears to be levelling off but a continuing strong demand for brick is expected. Bookings for future deliveries continue at a high level at all locations. With the additional production capacity at St. Lawrence Brick and Michigan Brick the overall expectation is for a modest increase in sales and profits for 1978.

Atlantic Sugar



Leo E. Labrosse, President
Atlantic Sugar Limited

Five Year Review	Sales ($ million)	Earnings from Operations ($ million)
1977	87.2	8.8
1976	105.1	11.0
1975	149.9	9.1
1974	152.4	4.1
1973	79.7	7.0

Business Description
Atlantic Sugar is Canada's second largest refiner and marketer of cane sugar. Imported raw cane sugar of high quality is delivered the year-round to the Saint John, New Brunswick refinery by ocean going vessels. The refinery, with a capacity of approximately 250,000 metric tons per year, is of steel and concrete construction and is situated on a 6.9 acre site in Saint John harbour. The sugar is refined to almost 100% purity, packaged in a number of ways or bulk shipped by rail or truck to retail consumers or industrial customers. In Eastern Canada apppoximately 70% of refined sugar is purchased by industrial users, concentrated mainly in the Toronto and Montreal areas, with the balance of the sugar used by retail consumers. The Company sells bulk, liquid and packaged sugar from its owned warehouses in Montreal and Toronto.

Operations Review
Competition in the Eastern Canadian sugar industry was extremely keen with a good deal of price discounting. In order to remain competitive the Company increased the flexibility of its distribution facilities by adding to its fleet eight liquid sugar rail cars, two liquid sugar tank trucks and one bulk sugar truck. Alterations were made in the Montreal warehouse so as to allow better loading of bulk sugar trucks. Atlantic will be offering sucrose in the Montreal area for the first time in six years and will have greater ability to ship bulk sugar to its industrial customers. It is anticipated sales of liquid sugar will represent a greater proportion of sales in the coming year.

A major change in the refining operation was made during the year. The long-used clarifiers were replaced by new and improved units, thus enabling us to improve further the quality of the sugar refined. This change will in turn allow us to improve the efficiency in filtering sugar liquor. Studies are under way on four major capital expenditure projects which will further up-grade our refining process. Maintenance material continues to increase in price. It is anticipated the cost of oil will increase by 15 percent this year and will continue to rise in the future until Canada reaches international price levels.

Outlook for 1978
Since 1975 world raw sugar production has exceeded consumption, resulting in a decline in the price of sugar. 1978 production is estimated to be 91 million tons compared to estimated consumption of 85.5 million tons, adding to the substantial world inventories.

Last Fall the sugar importing and exporting countries negotiated a new International Sugar Agreement which took effect in January this year. The Agreement provides for export quotas and special stocks in the hands of exporting nations in an attempt to stabilize the price of raw sugar in the range of 11 cents to 21 cents per pound. This is viewed as a favorable development as it should help to prevent the volatile price changes which disrupted world sugar markets in 1974. It is anticipated that raw sugar prices will remain at relatively low levels in 1978 due to the existing high world inventories.

Atlantic Sugar's refinery is presently operating at close to full capacity. It is expected that market demand will keep operations at this level throughout 1978.

Sonco Steel Tube

Douglas G. Sinclair, President
Sonco Steel Tube Limited

Five Year Review	Sales ($ million)	Earnings from Operations ($ million)
1977	21.1	4.0
1976	19.3	3.8
1975	16.1	3.1
1974	18.2	4.4
1973	15.2	2.9

Business Description
Sonco is a leading Canadian producer of hollow structural steel sections and mechanical steel tubing. These products are manufactured by cold forming and electric welding of hot rolled skelp, cold rolled and galvanized strip. The strip is received in coils from primary Canadian steel producers.

Mechanical tubing and structural sections are fabricated in a wide range of lengths, sizes, wall thicknesses and metallurgical compositions to meet specific customer requirements.

Round, square and rectangular tubing is fabricated in wall thicknesses from .025 inches to .375 inches. The diameter of round tubes range from .375 inches to 7 inches. Square and rectangular shapes are produced up to 7 inches square and 6 by 8 inches rectangular.

Tube and structural sections have a wide variety of applications. Hollow structural steel sections are used in construction and because of their high strength to weight ratio they are displacing conventional types of load-bearing supports. Tube and structural sections are also used in the manufacture of office and residential furniture, industrial and heavy farm equipment, guard railings for highways, gardening equipment, fence posts, lawn mowers, tool handles, toys, frames for playground swings, television towers, mobile homes, snowmobiles and other products.

Operations Review
In spite of difficult market conditions, Sonco was able to maintain full production for the entire year. Additional tooling was received during the year and this enabled Sonco to broaden its product line. New rolls and dies have added to the flexibility of operations. Customers require highly sophisticated types of tubing with specifications closely controlled. This need is particularly acute in the agricultural equipment industry, an important user of Sonco tube. In response to this need, Sonco's quality control department was strengthened and expanded.

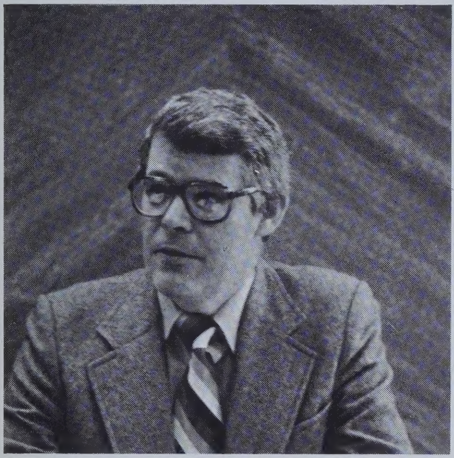
The internal reorganization started in 1976 was completed in 1977. Restructuring of the sales department enabled Sonco to gain greater penetration of the Canadian market. A revised sales and promotional brochure was issued during the year and was well received by customers and prospective customers.

In December a new one year collective agreement providing for a 6% increase in wages was ratified by employees. The contract also included provision for a pension plan for hourly rated employees.

Outlook for 1978
Plans have been completed for the installation of a "looper" on the large structural mill. This device allows for the continuous flow of the steel strip to the mill and will increase the productive capacity of the plant by reducing down-time required to join the coils. Cost reduction programs will be implemented in all aspects of the operation. A sales promotion program, consisting of promotional mailings of technical material, as well as trade journal advertising, will be designed and initiated to support the sales department.

It is expected the unsettled market conditions for steel tubing in Canada experienced in 1977 will continue into 1978. Export business is likely to remain buoyant aided by the lower value of the Canadian dollar relative to the United States dollar and the lower cost of Canadian steel relative to steel produced in the United States.

Jannock Tube



G. Wallace Wood, President
Jannock Tube Limited

Five Year Review	Sales ($ million)	Earnings from Operations ($ million)
1977	28.9	2.1
1976	16.2	.5
1975	17.6	1.3
1974	17.2	1.5
1973	12.1	.6

Business Description
Jannock Tube Limited is Canada's leading service organization engaged in the warehousing and selling of a wide range of tubular products. The Company operates through its Lyman and Tubeco divisions' service centres.

The inventories at the six service centres place at the customer's disposal $5 million worth of tubular products, consisting of 1,800 sizes of round, square and rectangular tubing and pipe products. The inventory is purchased predominantly from North American tubular mills but some purchases are made abroad.

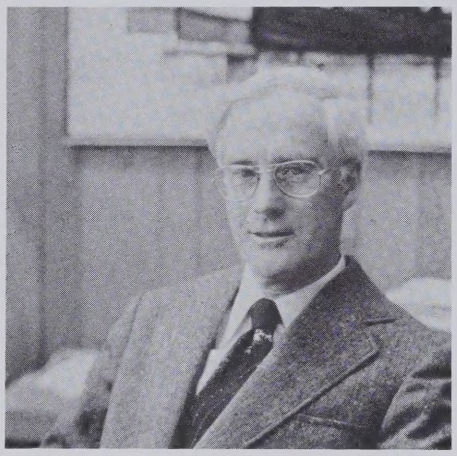
The inside and field sales force has daily contact with customers, keeping them apprised of technological changes and current market conditions. The sales force is supported by a modern warehousing and communications system and a fleet of Company owned trucks.

Both divisions sell to diverse operations, ranging in scope from one man machine shops to multi-million dollar conglomerates.

Operations Review
Early in the year customers worked off the surplus inventory which had plagued 1976 operations. Economic uncertainty led customers to realize that the risks of purchasing mill lots outweighed lower mill purchase prices and consequently many customers chose to purchase from warehouse stocks rather than make long term commitments to mills. This shift in the business mix allowed increased margins. The acquisition of Tubeco early in the year required the melding of the two marketing organizations. Duplicate service centres in Montreal, Toronto, Edmonton and Vancouver were phased out and other branch service centres strengthened. The combination of the two divisions allowed savings in purchasing, efficiency in inventory control and better servicing of customers.

Outlook for 1978
The uncertainty in the Canadian economy indicates continuation of the trend for customers to purchase from warehouse stocks. The full advantage of the Tubeco acquisition should be realized this year with improvements in service, internal operating efficiency and aggressive development of new business, resulting in increased earnings. A major thrust for 1978 is the technical up-grading of our personnel and the initiation of a more aggressive advertising and promotional campaign.

Allanson

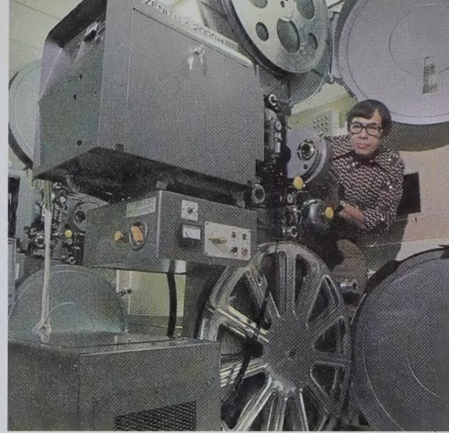


Roy A. Crolly, President
Allanson Manufacturing Company Limited

Five Year Review	Sales ($ million)	Earnings from Operations ($ million)
1977	9.2	1.2
1976	9.1	1.1
1975	6.6	.8
1974	6.7	.9
1973	6.4	1.0

Business Description

Allanson designs, manufactures and markets a wide range of specialty transformer products, including oil burner ignition transformers and fuel units for the heating industry, ballasts and transformers for the lighting and illuminated sign industries, battery chargers and power supplies.



Allanson serves several distinctly different markets through four broad product groupings: oil heating products, lighting products, consumer products and recreational vehicle products. The Company supplies almost all of the ignition transformers for the oil heating market in Canada. Allanson's ballasts and transformers have a commanding position in the illuminated sign industry and specialty ballasts are sold to the street and area lighting industry. Battery chargers are sold to leading retailers. Power supplies are sold to the recreational vehicle manufacturers for inclusion in their vehicles.

Operations Review

Several markets served by Allanson suffered from little or no growth in the first part of the year and accordingly sales and earnings were in line with last year's performance. In the Fall the situation changed dramatically and a recovery occurred which should continue well into 1978.

During the year the manufacturing operations were consolidated into two adjacent premises. This was the first stage of a program to improve production efficiency and the balance of the program will be completed in 1978. Cost saving programs were commenced and are continuing. Development work was started on new types of energy conserving oil burner ignition transformers and lighting ballasts.

Outlook for 1978

It is difficult to predict the economic growth in the Canadian markets. Work has begun on marketing programs whose specific objective is to enlarge penetration for those product areas where Allanson does not already have a good position. We are concerned with the possible impact on Allanson of the current GATT negotiations.

The decline in value of the Canadian dollar will continue to mean higher prices for the materials purchased in the United States. However, it is anticipated that this will be more than offset by the advantage to Allanson in selling finished goods in the United States market.

The development of the new types of ignition transformers and lighting ballasts is expected to provide some contribution to domestic and export sales in 1978 with the possibility of substantial growth in the years ahead.

Corporate Information

Operating Management

E. Yngve Carlson,
President, Canada Brick

Roy A. Crolly,
President, Allanson Manufacturing

Leo E. Labrosse,
President, Atlantic Sugar

Douglas G. Sinclair,
President, Sonco Steel Tube

G. Wallace Wood,
President, Jannock Tube

Bankers

The Toronto-Dominion Bank

Auditors

Coopers & Lybrand

General Counsel

Fraser & Beatty,
Toronto

McCarthy & McCarthy,
Toronto

Incorporation

Province of Ontario

Stock Listing

The Toronto Stock Exchange
The Montreal Stock Exchange

Transfer Agent & Registrar

Canada Permanent Trust Company
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

Customer Photo Credits:

Page 18: General Crane Industries Ltd.
Page 20: General Sound & Theatre Ltd.

Capital $32.7 Million — Return on Shareholders' Equity 26.3% — Common Shares Outst
Share $8.95 — Total Assets $123 Million — Earnings per Share $2.25 — Cash Flow $17 Mi
Outstanding 4,662,775 — Sales $175.8 Million — Earnings from Operations $22.9 Million
$17 Million — Working Capital $32.7 Million — Return on Shareholders' Equity 26.3% — C
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